



City Council Report

Date: June 6, 2022
To: City Council
Through: Michael Kennington, Deputy City Manager/Chief Financial Officer
From: Samuel Schultz, Office of Management and Budget, Deputy Budget Director
Subject: Public Safety Personnel Retirement System (PSPRS) Pension Funding Policy

Purpose

The purpose of this item is to comply with A.R.S. § 38-863.01, which requires the City Council to annually: (1) approve a Public Safety Personnel Retirement System (PSPRS) plan funding policy, and (2) formally accept the City's share of PSPRS system assets and liabilities.

Background

The City enrolls its sworn police and fire & medical personnel in PSPRS. In 2018, the State enacted a law (HB 2097) requiring that the following action be taken annually by the governing bodies of employers with PSPRS plans:

1. Adopt a PSPRS pension funding policy for employees hired before July 1, 2017 (Tier 1 and Tier 2) with funding objectives that address:
 - a. How to maintain stability of contributions;
 - b. How and when funding requirements will be met; and
 - c. Defining a funded ratio target and the timeline for reaching the target.
2. Formally accept the employer's share of plan assets and liabilities as determined in plan actuarial valuation reports.
3. Post the pension funding policy on the employer's website

Discussion

Funding Objectives

The proposed PSPRS pension funding policy for the City includes the required funding objectives.

- a. Maintain stability of contributions by:
 1. Establishing and maintaining a pension stabilization reserve
 2. Determining changes to the reserve as part of the annual budget process
- b. Meet funding requirements by:
 1. Including contributions in the City's multi-year financial forecast and assuming increases in the total liability
 2. Budgeting at minimum the annual required contribution (ARC) as determined in plan actuarial reports
- c. Define a funded ratio target and timeline to reach the target:
 1. The City's funded ratio target is 100%
 2. The timeline for the City to reach the target is June 30, 2042

Acceptance of Assets and Liabilities

The Council resolution includes formal acceptance of plan assets and liabilities for the City's Tier 1 and Tier 2 PSPRS plans which are included in Table 1.

Table 1: Financial Status of the City of Mesa PSPRS Plans (as of June 30, 2021)

Plan	Assets (millions)	Liability (millions)	Unfunded Liability (millions)	Funded Status
Fire and Medical	\$ 245	\$ 482	\$ 237	50.8%
Police	\$ 433	\$ 904	\$ 471	47.9%
Total	\$ 679	\$ 1,386	\$ 708	

Actuarial Valuation Reports

The actuarial valuation reports for the City's Police and Fire & Medical PSPRS plans dated June 30, 2021 are attached for reference.

Alternatives

The Council may choose to adjust the proposed pension funding policy. State law requires that the Council approve a pension funding policy and formally accept the City's share of PSPRS assets and liabilities by July 1, 2022.